

FDIC State Profile

Fall 2005

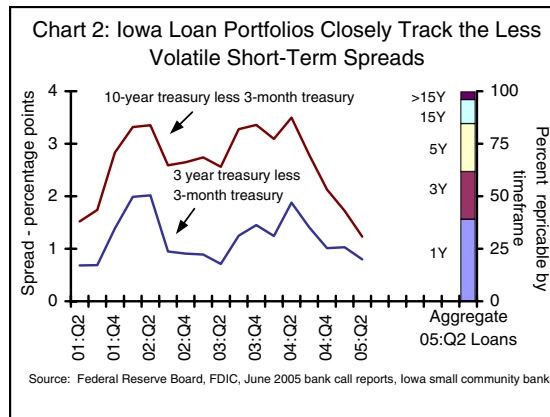
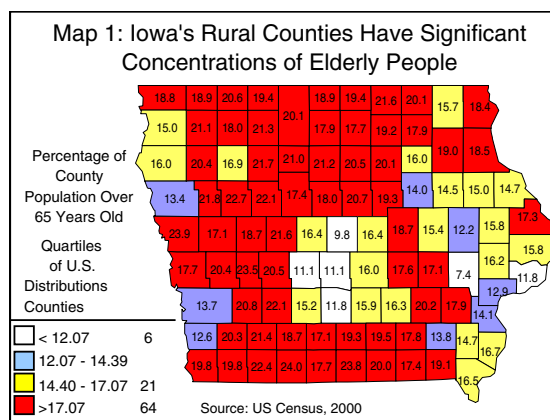
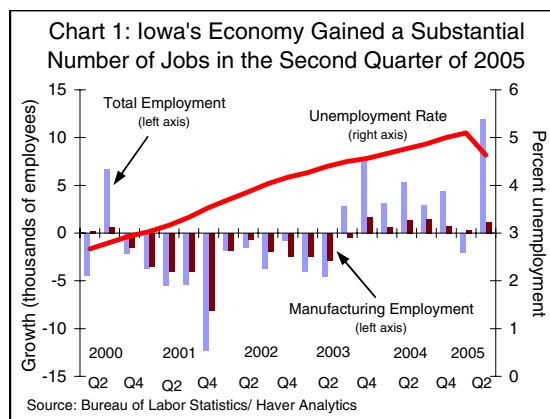
Iowa

Iowa's economic expansion gained momentum in the second quarter of 2005.

- Iowa's economy gained 12,000 jobs in the second quarter of 2005, the largest quarterly increase in more than ten years (see Chart 1). Total payroll employment reached its highest level since the first quarter of 2001, with the largest gains occurring in manufacturing and wholesale and retail trade. However, year-over-year employment growth was less than the national rate.
- While Iowa's manufacturing sector continues to recover, having added more than 7,000 jobs in the past six quarters, it is still more than 28,000 jobs below its peak level reached in the first quarter of 1999.
- The second quarter unemployment rate declined to 4.6 percent from 5.1 percent in the first quarter, the largest quarterly improvement in more than 25 years.
- The recent hurricanes' effects on the Iowa economy appear to be modest and are centered on energy. Like other states in the region, energy prices have risen sharply, but supplies have remained adequate. Farmers face substantially higher fuel costs during the harvest season.

Iowa's rural counties have relatively large concentrations of elderly people.

- Based on 2000 Census data, 64 of Iowa's 99 counties rank in the top quarter of the nation's counties in terms of population older than 65. All but four of these counties are rural (see Map 1).
- Large concentrations of elderly tend to be associated with rural depopulation, as 58 of the older counties lost population between 1970 and 2000. These counties typically experience out-migration of younger people seeking educational or employment opportunities.
- The Census Bureau projects that by 2030, 22.5 percent of Iowa's population will be older than 65, compared with 19.7 percent for the United States.



State Profile

Aging populations pose challenges to financial institution funding.

- Insured institutions operating in rural areas face funding challenges, especially in areas with large elderly populations. Commonly, when elderly depositors pass away, their deposits quickly move to their heirs' institutions, often located in far-away metropolitan areas.
- As a result of the aging population in Iowa's rural areas, the state's rural core deposit base has grown just 46.1 percent over the past decade compared with 52.0 percent for the nation. Moreover, the gap in growth rates between the two has grown increasingly more disparate.

Bank earnings remain solid as rising short-term rates have offset moderate declines in term yield spreads.

- Earnings performance remains positive for most Iowa institutions. The median return-on-assets ratio was 1.13 percent at June 2005, slightly lower than one year ago. Only 1.7 percent of institutions were unprofitable in the first half of the year.
- The declining spread between three-month and ten-year interest rates has many national banking analysts fretting about potential net interest margin (NIM) compression. However, Iowa's small community banks have lower long-term loan exposure than the nation.¹ Nearly two-thirds of community bank loans reprice within three years; therefore, margins tend to track more closely the much less volatile three-month to three-year treasury spreads (see Chart 2).
- Given the typical asset-sensitive nature of small community banks, rising short-term rates often benefit small bank margins, even when the yield curve flattens. In fact, NIMs in Iowa's community banks have held constant at 3.75 percent over the past year as rising short-term asset yields have offset the downward influence of a flattening yield curve.

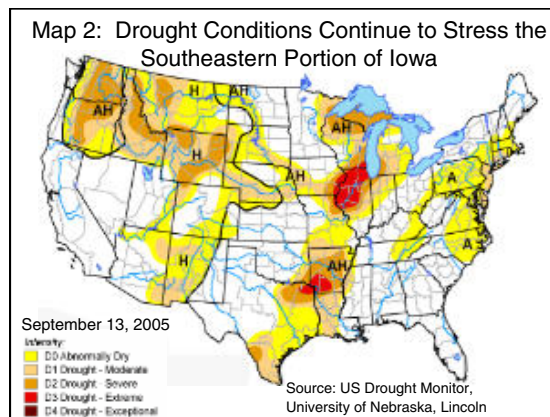
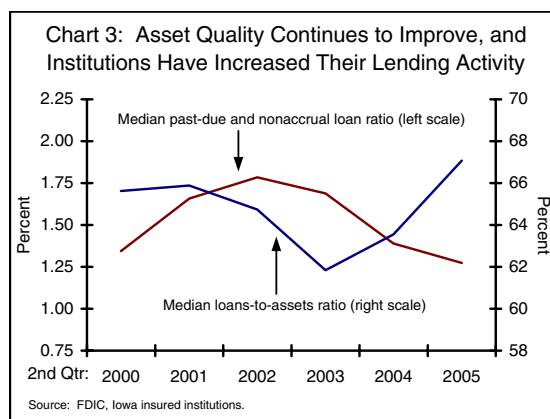
Asset quality continues to improve at Iowa insured institutions, and loan growth is strong.

- Delinquent loans at Iowa's insured institutions have declined for three straight years and represented just 1.27 percent of total loans in June 2005 (see Chart 3).
- Although the state has seen a recent spike in consumer bankruptcies as a result of pending bankruptcy reform enactment, the typical Iowa institution has very low consumer loan exposure, and consumer loan charge-offs historically have been negligible.

- Spurred by business investment, insured institutions are experiencing strong loan growth. Commercial real estate lending was most pronounced growing a median 15.8 percent from one year earlier followed by business loans at 10 percent.

Drought still poses risk for southeastern Iowa.

- Drought conditions in the southeastern section of the state remain unchanged over the past quarter (see Map 2). Though recent rainfall has aided in the reversal of some damage to crops in the most seriously affected area, much of the state's topsoil and subsoil remains overly dry.
- Despite these conditions, the United States Department of Agriculture (USDA) projects that the state will produce its second consecutive corn crop of more than 2 billion bushels. Large stocks remaining from last year's harvest will cause lower prices in the upcoming marketing year.
- The USDA forecasts that Iowa's soybean harvest will be slightly less than the average of the previous ten years, but reduced yields across the country and strong demand will result in higher prices next year.



¹Small community banks are defined as FDIC-insured commercial banks with less than \$250 million in total assets that have been in existence at least three years. At June 30, 2005, these institutions represented 87 percent of all insured institutions in Iowa.

Iowa at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	1.0%	1.3%	1.1%	-0.5%
Manufacturing (15%)	1.6%	1.8%	1.4%	1.3%	-3.2%
Other (non-manufacturing) Goods-Producing (5%)	-0.5%	1.3%	7.3%	5.1%	1.0%
Private Service-Producing (63%)	1.5%	1.2%	1.1%	1.1%	-0.1%
Government (17%)	-0.4%	-0.6%	0.3%	-0.2%	0.4%
Unemployment Rate (% of labor force)	4.6	5.1	4.8	4.8	4.4

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.1%	5.1%	9.4%	8.9%	1.9%
Single-Family Home Permits	-4.9%	11.1%	-0.7%	-2.4%	25.9%
Multifamily Building Permits	34.5%	13.4%	-19.6%	-13.5%	-14.0%
Existing Home Sales	6.2%	2.4%	15.8%	13.9%	6.8%
Home Price Index	5.7%	5.4%	5.1%	5.0%	3.7%
Bankruptcy Filings per 1000 people (quarterly annualized level)	5.94	4.90	4.87	4.41	4.18

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	413	412	417	414	422
Total Assets (in millions)	51,735	51,208	50,450	51,091	55,932
New Institutions (# < 3 years)	5	4	4	3	6
Subchapter S Institutions	204	202	192	192	188

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.27	1.46	1.39	1.11	1.35
ALLL/Total Loans (median %)	1.22	1.23	1.26	1.24	1.27
ALLL/Noncurrent Loans (median multiple)	3.00	2.54	2.22	2.74	2.45
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.01	0.05	0.07

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.37	9.38	9.19	9.34	9.09
Return on Assets (median %)	1.13	1.11	1.18	1.13	1.12
Pretax Return on Assets (median %)	1.45	1.40	1.46	1.44	1.44
Net Interest Margin (median %)	3.77	3.73	3.77	3.80	3.79
Yield on Earning Assets (median %)	5.81	5.56	5.51	5.57	5.84
Cost of Funding Earning Assets (median %)	1.99	1.81	1.68	1.71	2.01
Provisions to Avg. Assets (median %)	0.04	0.03	0.05	0.06	0.08
Noninterest Income to Avg. Assets (median %)	0.52	0.50	0.53	0.55	0.57
Overhead to Avg. Assets (median %)	2.54	2.54	2.54	2.60	2.63

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	67.1	66.0	63.6	64.4	61.5
Noncore Funding to Assets (median %)	17.5	15.9	15.5	15.5	14.6
Long-term Assets to Assets (median %, call filers)	15.4	15.9	17.4	16.3	16.6
Brokered Deposits (number of institutions)	104	99	86	96	84
Brokered Deposits to Assets (median % for those above)	2.6	2.3	2.0	2.2	1.3

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	94.3	88.3	88.5	87.7	84.4
Commercial Real Estate	97.3	92.9	92.4	92.8	90.3
Construction & Development	13.0	12.4	11.3	12.1	10.9
Multifamily Residential Real Estate	2.4	2.3	2.3	2.5	2.3
Nonresidential Real Estate	72.6	70.2	69.8	70.6	66.2
Residential Real Estate	150.7	153.2	152.3	154.6	152.5
Consumer	37.1	36.7	37.2	37.2	39.7
Agriculture	212.0	209.1	202.6	208.8	207.9

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Omaha-Council Bluffs, NE-IA	75	13,804	< \$250 million	377 (91.3%)
Des Moines, IA	45	11,155	\$250 million to \$1 billion	31 (7.5%)
Davenport-Moline-Rock Island, IA-IL	46	5,440	\$1 billion to \$10 billion	5 (1.2%)
Cedar Rapids, IA	42	3,750	> \$10 billion	0 (0%)
Sioux City, IA-NE-SD	33	2,042		